A. MULTIPLE CHOICE QUESTIONS (30%)

1	C
2	A
3	C
4	C
5	A
6	B
7	C
8	C
9	B
10	C

11	B
12	B
13	A
14	B
15	B
16	A
17	A
18	B
19	C
20	B

B. TRUE & FALSE (20%)

1	F
2	T
3	F
4	T
5	F
6	T
7	F
8	T
9	T
10	F

11	F
12	F
13	F
14	F
15	T
16	F
17	F
18	T
19	F
20	T

C. Choose TWO out of the THREE below cases (25% each)

Case #1:

Audit procedures for investments

a. Determine that any impairments in the price of investments have been properly recorded.
b. Verify that transfers from the current to the noncurrent investment portfolio have been properly recorded.
c. Obtain positive confirmations as of the balance sheet date of investments held by independent custodians.

Audit objectives for investments

	A	B	C
1. Investments are properly described and classified in the financial statements		X	
2. Recorded investments represent investments actually owned at the balance sheet date.			X
3. Trading investments are properly valued at fair market value at the balance sheet date.	X		

Audit procedures for accounts receivable

a. Perform sales cutoff tests to obtain assurance that sales transactions and corresponding entries for inventories and cost of goods sold are recorded in the same and proper period.
b. Review the aged trial balance for significant past due accounts.
c. Review loan agreements for indications for indications of whether accounts receivable have been factored or pledged.
d. Review the accounts receivable trial balance for amounts due from officers and employees.

Audit objectives for accounts receivable

	A	B	C	D
4. Accounts receivable represent all amounts owed to the entity at the balance sheet date.	X			
5. The entity has legal right to all accounts receivable at the balance sheet date.			X	
6. Accounts receivable are stated at net realizable value.		X		
7. Accounts receivable are properly described and presented in the financial statements.				X

Case # 2

(a) Draft, for inclusion in the auditor's report, wording appropriate to XYZ.

Note: You are not required to reproduce the auditor's report in full. Only the differences for an unmodified report were required.

Only the management responsibilities section will follow the standard wording. Those elements that differ from the standard unmodified auditor's report are given as the answer.

Disclaimer of Opinion

Because of the significance of the matters in the basis for Disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion (extract)

The evidence available to us limited because a significant number of the company's key accounting records were destroyed by fire in November 2017. The financial statements therefore include significant amounts based on our estimates. In these circumstances there were no satisfactory audit procedures that we could adopt to obtain all the information and explanations we consider necessary to enable us to express an opinion.

Auditor's responsibilities for the audit of financial statements

Our responsibility is to conduct an audit of the company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of these financial statements in [jurisdiction], and we have filled our other ethical responsibilities in accordance with these requirements.

(b) Explain and distinguish between the following forms of modified report.

(i) Emphasis of matter;

- An Emphasis of Matter is clearly distinguishable from other modifications (e.g. qualified opinions) in that it does not affect the auditor's opinion.
- An Emphasis of Matter paragraph highlights a matter affecting the financial statements which is discussed in the notes to the financial statements, for example going concern.

(ii) Qualified opinion;

A qualified 'except for' opinion is expressed when the auditor cannot express an unmodified opinion but the effect of the matter is not so material and pervasive as to require an adverse opinion or disclaimer of opinion.

(iii) Disclaimer of opinion;

An auditor is unable to express (i.e. disclaims) an opinion when the effect of the lack of available evidence is so material and pervasive that the auditor has been unable to obtain sufficient appropriate audit evidence (which may be reasonably expected to be available)

(iv) Adverse opinion.

The effect of the material misstatement is so pervasive that the auditor concludes that an 'except for' qualification is not adequate to disclose the misleading or incomplete nature of the financial statements.

Distinctions

There are three issues which distinguish the form of modified reports

EITHER the matter does not affect the auditor's opinion (i.e. (i)) or it does (i.e. (ii), (iii) and (iv)).

If the audit opinion is affected, then:

EITHER there is sufficient appropriate evidence on a matter for the auditor to disagree with the amount, treatment or disclosure in the financial statements (as in (iv));

OR there is sufficient evidence (in (iii).

EITHER the misstatement is 'so material and pervasive' (as in (iii) & (iv) resulting in 'because of the significant of…'.

OR not so material and pervasive (as in (ii) resulting in a qualified 'except for' opinion.

Case #3:

Prepare an audit plan for a verification of a cash cycle.

The audit plan should include all 5 assertions. For each assertion, you should choose 2 audit steps.

The 5 assertions are:

1. Existence and Occurrence
2. Completeness
3. Valuation or Allocation
4. Rights and Obligations
5. Presentation and Disclosure

Audit steps (you should choose only 10):

- Sudden cash count
- Confirmation of cash on hand from custodians
- Review sequence numbers of the PVs
- Review of the serial number of the RVs
- Review of internal control of the cash cycle
- Review and check the signature of the cash recipient
- Review the signature of the authorization for payment
- Review the supporting documentation
- Elimination of the original invoices by stamping 'paid'
- Review the difference of exchange for foreign currencies
- Review the allocation between restricted cash and non-restricted cash
- Trace the cash account in trial balance to the physical cash on hand with custodians
- Review the allocation and presentation within the balance sheet of the cash account

And other relative audit steps.